

Message Text

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PAGE 01 STATE 174781
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SUBJECT: TRADE FACILITATION COMMITTEE -- FILTRONA
-- INTERNATIONAL

1. SUMMARY: COMMERCE (USDOC) FORWARDING NEW CASE FOR TFC
CONSIDERATION CONCERNING THE JAPAN TOBACCO AND SALT PUBLIC
CORPORATION'S (JTS) "BUY JAPANESE" POLICY WHICH HAS HAD
THE EFFECT OF PREVENTING FILTRONA FROM SELLING CIGARETTE
FILTERS TO JTS. END SUMMARY.

2. REQUEST EMBASSY PRESENT CASE ON BEHALF OF FILTRONA
TO JAPANESE SIDE OF TFC ALONG THE FOLLOWING LINES:

SUMMARY

FILTRONA INTERNATIONAL LIMITED (10 E. 40TH STREET,
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 STATE 174781

NEW YORK, N.Y. 10017) HAS BEEN TRYING SINCE 1970 TO SELL
ITS PATENTED SCS CIGARETTE FILTERS TO THE JAPAN TOBACCO
AND SALT PUBLIC CORPORATION (JTS). JTS DECISION NOT TO
PURCHASE THE SCS FILTERS APPEARS TO BE BASED ON A "BUY
JAPAN" PROCUREMENT POLICY RATHER THAN ON COMMERCIAL
CONSIDERATIONS, SUCH AS PRICE, QUALITY AND MARKETABILITY.

FACTS

(1) FILTRONA HAS BEEN TRYING TO SELL ITS PATENTED SCS CIGARETTE FILTERS TO JTS SINCE 1970. JTS, AS THE GOJ CIGARETTE PRODUCTION AND MARKETING MONOPOLY, IS THE SOLE JAPANESE MARKET FOR FILTER PRODUCERS. FILTRONA HAS BEEN TRYING TO CONVINCE JTS TO USE THE SCS LOW TAR AND NICOTINE FILTER TO LAUNCH A NEW BRAND OF JAPANESE CIGARETTES WITH GOOD MARKET POTENTIAL AMONG THE HEALTH-CONSCIOUS JAPANESE. SCS FILTERS ARE USED ON R. J. REYNOLDS' VANTAGE CIGARETTES.

(2) IN 1970 FILTRONA SUBMITTED SAMPLE MATERIALS AND INFORMATION ON JTS FOR AN INITIAL EVALUATION OF THE PROPOSED PROJECT. IN MEETINGS HELD IN NOVEMBER 1971, NOVEMBER 1972, APRIL 1973, AND AUGUST 1973 WITH MESSERS. NAKAHATA (MANAGER, TECHNICAL RESEARCH DEPT.), IIDA (DEPUTY DIRECTOR, JTS) AND OTHER JTS OFFICIALS, FILTRONA PRESIDENT E.A. HILTON TRIED TO ASCERTAIN JTS' RESPONSE TO THE PROPOSED PROJECT AND PUSH FOR ITS PRIORITY CONSIDERATION BY THE JTS DEVELOPMENT COMMITTEE, WHICH MUST APPROVE ALL NEW PROJECTS. ALTHOUGH JTS OFFICIALS EXPRESSED INTEREST IN THE UNIQUE CONCEPT REPRESENTED BY THE SCS FILTER, THEY WERE UNWILLING OR UNABLE TO PROVIDE ANY INFORMATION CONCERNING WHETHER SCS WAS OR WOULD BE CONSIDERED BY THE DEVELOPMENT COMMITTEE. AT THE AUGUST 1973 MEETING
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 STATE 174781

MR. NAKAHATA INDICATED HE DID NOT THINK JTS WOULD REACH A CONCLUSION ON THIS PROJECT "IN THE NEAR FUTURE." FURTHERMORE, JTS OFFICIAL DID NOT ASK FOR ADDITIONAL SAMPLES -- WHICH WOULD BE REQUIRED FOR SERIOUS STUDY OF THE PROPOSAL -- OR FOR A QUOTATION.

(3) IN MAY 1977 JTS PURCHASED 8,000 SCS FILTERS FOR EVALUATION. FILTRONA HAS NOT RECEIVED A REPORT OF THEIR FINDINGS.

(4) A LETTER FROM ONE OF FILTRONA'S AGENTS DESCRIBES THE REASON WHY JTS WAS NOT RESPONSIVE TO FILTRONA'S PROPOSAL: "THE INDUCTION OF SCS...FILTERS (IS) CHAMPIONED BY A GROUP WITHIN JTS, WHO MAINTAINS THE INTRODUCTION OF NEW BRANDS USING NEW FILTERS IS THE ONLY WAY TO STIMULATE CONSUMPTION OF CIGARETTES...AT THE SAME TIME THIS GROUP IS MEETING CONSIDERABLE OPPOSITION FROM "BUY JAPANESE" GROUP WHO WOULD WANT TO KEEP THE FILTER PLUG SUPPLY SOLELY DOMESTIC."

(5) JTS PROCUREMENT DIVISION OFFICIALS RECENTLY INFORMED U.S. EMBASSY OFFICERS THAT THE REASON WHY JTS DOES NOT BUY SCS FILTERS IS THAT THE FILTERS TESTED DO NOT MEET EXACTING

JTS SIZE REQUIREMENTS FOR HIGH SPEED PRODUCTION MACHINERY; I.E., THE FILTERS ALLEGEDLY WRINKLED DURING THE PRODUCTION PROCESS. MR. HILTON WAS NOT INFORMED OF THIS FINDING BY JTS.

(6) JTS PURCHASES ITS CELLULOSE ACETATE FILTERS FROM FOUR DOMESTIC PRODUCERS. JTS IS A MAJOR SHAREHOLDER IN EACH OF THESE FIRMS: NIKON FILTER (72.8 SHARE); OSAKA FILTER (42.9),KYUSHU FILTER (48), TOKOKU FILTER (JTS LISTED AS A MAJOR SHAREHOLDER).

DISCUSSION

UNCLASSIFIED

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PAGE 04 STATE 174781

WE SUBMIT THAT THE SCS PROPOSAL WAS NOT GIVEN SERIOUS CONSIDERATION BY THE JTS DEVELOPMENT COMMITTEE BECAUSE SCS FILTERS WOULD HAVE TO BE IMPORTED, AND JTS OFFICIALS, FOLLOWING A LONG-STANDING PRACTICE OF SOURCING MANUFACTURED CIGARETTE COMPONENTS DOMESTICALLY, DECIDED TO KEEP THE FILTER PLUG SUPPLY SOLELY DOMESTIC. BY DELAYING CONSIDERATION OF THE SCS PROPOSAL, JTS MAY HAVE HOPED THAT DOMESTIC MANUFACTURERS WOULD BE GIVEN TIME TO DEVELOP A LOW TAR AND NICOTINE FILTER SUBSTITUTE FOR SCS.

THE SCS FILTER EMPLOYS A TECHNOLOGICALLY ADVANCED CONSTRUCTION METHOD TO PRODUCE HIGH TOBACCO SMOKE FILTRATION EFFICIENCY AND LOW TAR AND NICOTINE INTAKE-- A FEATURE EXPECTED TO BE POPULAR WITH HEALTH CONSCIOUS JAPANESE. USED ON R.J. REYNOLDS; SUCCESSFUL VANTAGE BRAND CIGARETTES, THE SCS FILTER HAS PROVEN ITS QUALITY, RELIABILITY AND COMMERCIAL VALUE IN MARKETS AROUND THE WORLD.

IN MAY 1977 JTS EXTENDED SERIOUS CONSIDERATION TO THE SCS PROPOSAL FOR THE FIRST TIME; FILTRONA WAS ASKED TO SUBMIT 8,000 SCS FILTERS FOR TESTING. AS OF JUNE 30, 1978, HOWEVER, FILTRONA STILL HAS NOT RECEIVED AN OFFICIAL ACCOUNT OF JTS' TEST RESULTS. NOR HAS FILTRONA RECEIVED ANY REQUEST FOR TECHNICAL CONSULTATIONS--AS WOULD BE EXPECTED IN THE COURSE OF SERIOUS CONSIDERATION OF THE SCS PROJECT.

A LETTER FROM ONE OF FILTRONA'S AGENTS IN JAPAN IS VERY EXPLICIT ABOUT THE REASON FOR JTS' DELAYS IN GIVING FILTRONA A DEFINITIVE RESPONSE: IT IDENTIFIES THE JTS OPPOSITION TO THE SCS PROPOSAL AS A "BUY JAPANESE" GROUP

UNCLASSIFIED

UNCLASSIFIED

PAGE 05 STATE 174781

WHO WOULD WANT TO KEEP THE FILTER PLUG SUPPLY SOLELY DOMESTIC. WE SUBMIT THAT THIS EXPLANATION SUPPORTS OUR POSITION THAT THE MAJOR OBSTACLE BLOCKING JTS' PURCHASE

OF FILTRONA'S SCS FILTERS IS NOT A CALCULUS OF COMMERCIAL CONSIDERATIONS BUT AN INGRAINED BIAS AGAINST IMPORTS.

JTS PROCUREMENT DEPARTMENT MATERIALS DIVISION OFFICIALS RECENTLY TOLD EMBASSY OFFICERS THAT THE REASON WHY JTS DOES NOT BUY FILTRONA FILTERS IS THAT THE SCS FILTERS TESTED DID NOT MEET EXACTING JTS SIZE REQUIREMENTS FOR HIGH SPEED PRODUCTION MACHINERY; I.E. THE FILTERS ALLEGEDLY WRINKLED DURING THE PRODUCTION PROCESS. MR. HILTON CLAIMS OUR REPORT TO HIM OF THIS CONVERSATION IS THE FIRST TIME HE HAS BEEN INFORMED THAT THE ALLEGED WRINKLES WERE THE RESULT OF WRONG-SIZED FILTERS BEING PROCESSED THROUGH JTS' HIGH SPEED PRODUCTION MACHINERY. FURTHERMORE, FILTRONA CLAIMS THAT WRINKLING IS A MINOR MATTER WHICH COULD BE EASILY RESOLVED THROUGH TECHNICAL CONSULTATIONS, BUT JTS HAS NOT REQUESTED SUCH CONSULTATIONS. IT SHOULD ALSO BE NOTED THAT WRINKLING DOES NOT OCCUR WHEN SCS FILTERS ARE PROCESSED THROUGH R.J. REYNOLDS' HIGH SPEED PRODUCTION MACHINERY.

IN CONTRAST TO THE DELAYS ON THE SCS PROPOSAL, DURING THE GLOBAL RAW MATERIAL SHORTAGE IN 1974 JTS DEMONSTRATED ITS CAPACITY TO QUICKLY APPROVE THE PURCHASE OF IMPORTED FILTERS WHEN IT WAS IN JTS' INTEREST TO DO SO. DUE TO A TEMPORARY SHORTAGE OF ITS "SEVEN STAR" FILTERS, JTS NEGOTIATED THE TECHNICAL DETAILS OF A LARGE SHIPMENT OF FILTRONA FILTERS IN LESS THAN TWO WEEKS. LARGE SAMPLES OF FILTRONA FILTERS WERE ORDERED AND TESTED WHERE NECESSARY, AND MUTUALLY AGREED UPON FILTER PRODUCTION PARAMETERS WERE ESTABLISHED AFTER LENGTHY DISCUSSIONS BETWEEN JTS PRODUCTION AND QUALITY CONTROL OFFICIALS ON THE ONE HAND, AND MR. HILTON AND A FILTRONA QUALITY CONTROL EXPERT, ON UNCLASSIFIED

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PAGE 06 STATE 174781

THE OTHER. THE ABSENCE OF SIMILAR DISCUSSIONS ON THE SCS PROJECT SUGGESTS AN ABSENCE OF SERIOUS INTEREST BY JTS.

FINALLY, JTS PURCHASES ALL ITS CELLULOSE ACETATE FILTERS FROM FOUR DOMESTIC PRODUCERS, AND IT HAS A STRONG FINANCIAL INTEREST IN PROTECTING THESE COMPANIES FROM OUTSIDE COMPETITION SINCE IT IS A MAJOR SHAREHOLDER IN EACH:

NIKON FILTERS (72.8 SHARE), OSAKA FILTER (42.9),KYUSHU
FILTER (48), TOHOKU FILTER (JTS LISTED AS A MAJOR
SHAREHOLDER).

RELIEF SOUGHT

1. JTS SHOULD GIVE FAVORABLE CONSIDERATION TO THE
PURCHASE OF FILTRONA SCS FILTERS.

2. JTS SHOULD CONDUCT TECHNICAL DISCUSSIONS WITH FILTRONA
REPRESENTATIVES CONCERNING THE ,WRINKLE PROBLEM"
SO THAT FILTRONA CAN ADAPT THE SCS FILTER TO JTS SIZE
REQUIREMENTS.

3. JTS SHOULD NOTIFY FILTRONA OF ITS OFFICIAL TEST
FINDINGS ON THE 8,000 SCS FILTERS SUBMITTED IN MAY 1977.
END TEXT

4. COMMERCE COMMENT ON PROPOSED GATT XVII:I; III ACTION
WILL BE TRANSMITTED IN LATER CABLE. COMMERCE DOES NOT
BELIEVE FILTRONA'S PROBLEM WILL BE RESOLVED IN THE MTN
SINCE IT INVOLVES A SPECIFIC PROJECT DECISION BY JTS.
TFC CHANNEL IS SEEN BY US AS BEST FORUM TO AIR COMPLAINTS
SUCH AS FILTRONA'S.

5. ACTION REQUESTED: REQUEST EMBASSY SUBMIT ABOVE TO
JAPANESE SIDE OF TFC ASAP. CHRISTOPHER
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PAGE 07 STATE 174781

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